



Canada: BRITISH COLUMBIA GAS STIMULUS PACKAGE

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On August 6, 2009 the Provincial government of British Columbia introduced a series of tax credits and regulatory changes designed to stimulate immediate natural gas exploration and development in Northern British Columbia.

An important point of distinction compared to the United States is the fact that 90% of land in British Columbia is owned by the Crown (government owned) - this means that the provincial government of British Columbia is entitled to royalty payments for granting land use to producers. In British Columbia, natural gas royalty rates fluctuate with natural gas prices and usually start at 9% with a maximum rate of 27%.

The Provincial stimulus plan is made up of four royalty initiatives and two regulatory changes:

- A one-year, royalty relief rate of 2% applied to all natural gas wells spudded between September 1, 2009 and June 30, 2010
- A 15% increase in the value of credits from the Deep Royalty Credit Program for deep natural gas drilling conducted after August 31, 2009. This credit reflects the increased cost of deep drilling.
- The expansion of the definition of deep gas drilling to include horizontal wells drilled between 6,248 and 7,546 feet in order to qualify for the Deep Royalty Credit Program.
- An additional \$50 million allocation to the Infrastructure Royalty Credit; a credit program to encourage company investment in road and pipeline infrastructure.
- The expansion of commingling production to the Plains Region of North-Eastern British Columbia; allowing producers to combine production from different drilling layers into one bore well; and
- Amendments to drilling license regulation to create flexibility to allow industry to convert wells to production without losing the privilege to continue exploratory drilling in the same area.

In addition to these new measures, two existing credit programs are also in effect; the summer drilling credit offers a \$90,000 USD tax credit for summer production or exploratory drilling. Traditionally, the majority of British Columbia drilling was conducted from November to March due the increased stability of frozen ground. The other program is the marginal and ultra-marginal well credit, a tax credits for newly drilled production wells which have low productivity.

Industry Overview:

Producing approximately 16.9 billion cubic feet of gas per day (2007), Canada is the world's third largest producer of Natural gas. Of that amount, 60% of Canadian natural gas is exported to the United States. The majority of Canadian natural gas production is concentrated in the province of Alberta, with British Columbia as a distant second in production volume. In the past, British Columbia's natural gas sector has been hampered by difficult and isolated terrain as well as a lack of infrastructure. Despite this, British Columbia has proven reserves of 13.3 trillion cubic feet of marketable gas. This reserve figure has also been continuously revised upward since 2000 - reflecting new gas field discoveries. The gas stimulus package is designed to help make British Columbia natural gas competitive and to stimulate gas field exploration and development.

Opportunities for US Firms:

The introduction of the natural gas stimulus package presents an opportunity for American natural gas drilling equipment makers and gas field service firms. An expansion in British Columbia natural gas exploration and production will create significant demand for specialized equipment and services. US firms are advised to investigate distribution or product representation agreements with British Columbia based companies for ready access to this market.

Furthermore, due to the sheer size of British Columbia natural gas reserves and the demand that will be created by the stimulus package, the situation presents an attractive opportunity for companies to introduce their products and services to what is and will continue to be an important energy producing region in North America.

An informational brochure on oil & gas in British Columbia can be found at:
<http://www.empr.gov.bc.ca/OG/oilandgas/publications>

Further information on the British Columbia natural gas sector can be obtained by contacting the U.S. Commercial Service in Vancouver, Canada.

For More Information

The U.S. Commercial Service in Vancouver, Canada can be contacted via e-mail at:
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